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MONTHLY PROJECTIONS
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ELECTIONS, GORBACHEV AND OPEC ALL BUFFET ECONOMY

Two elections, in the United States and Canada, OPEC's off-again, on-again oil production and pricing agreements, and Mikhail Gorbachev's unilateral withdrawal initiative in Eastern Europe all impacted the economy in the past month. When all the factors were considered, the results were not appreciably different from before all these events took place. However, inflationary pressures early in 1989 probably will be higher than originally anticipated while currency values and long-term interest rates, seeking promises from the peace initiative, may be lower than previously expected.

Although events may change dramatically after president-elect George Bush assembles his total cabinet, the early appointments, which include virtually all his economic team, suggest no dramatic changes in policy. Dr. Michael Boskin created the "flexible freeze" to demonstrate how growth may eliminate budget deficits, a concept that George Bush himself denied when he was running against President Reagan eight years ago. The other appointments, from Brady to Hills suggest continuity without drama. Apparently, President Bush, like President Reagan before him, will try to wait out the consequences of structural federal deficits.

In the meantime, the Congress has a guideline of its own in the Gramm-Rudman legislation that will require $48 billion in reductions in the fiscal year beginning next October. With President Bush refusing, at this time, to consider any significant revenue initiatives, these deficit reduction targets almost certainly are unachievable. Dan Rostenkowski's initiative to increase taxation of social security benefits while raising gasoline taxes provides a means of closing the gap between deficit targets and reality, but the administration-in-waiting has indicated no inclination to follow such a proposal. When foreign investors became aware that continuity rather than new directions was likely from the new administration, they decided that the American dollar was a poor place to put their liquid assets. As a result, the dollar fell dramatically late in November and early in December.

Then the Soviet president came to New York bearing unilateral defense gifts from the East. Not only did the Soviet president indicate that he would reduce tank divisions in Europe and other parts of the Soviet sphere but he also suggested that remaining troops in East Europe would take a defensive posture. In effect, he declared that the Soviet mission no longer was one of spreading the revolution but rather was one of raising the economic well-being of the Soviet people, which was falling dramatically behind countries in Asia and Europe. Of course, an announcement by a Soviet leader is not sufficient to insure success. The military industrial complex in Russia is even more powerful than it ever attained in the United States. Nevertheless, the peace overture is a major departure in Soviet policy that provides opportunities for reducing conventional forces in the NATO alliance.

The long-run implications of Mr. Gorbachev's initiative can be significant. Indeed, if these proposals are carried out, the United States may be able to reduce its defense spending over time by more than 20% as a share of GNP. However, even the Soviet Union will not be able to achieve its objectives until 1991. Any U.S. response clearly will need to be delayed until after the new administration has assembled its defense and security teams. Nevertheless, the new peace environment holds opportunities for reducing defense spending in the next budget. The Bush administration reportedly already was seeking more than $10 billion of reductions from President Reagan's defense proposals to be released January 9. Another $5 to $10 billion of reductions possibly could be added in response to the Soviet initiative.

While reduced defense spending could significantly reduce the structural deficit, substantial savings probably are not likely until the third and fourth years of the Bush administration. Nevertheless, the changed climate indicates that President Bush's budgetary restraint augmented by accelerated defense spending reductions could achieve a structural balance in the budget before the end of his first term.

Such an outcome has excited the fixed-income markets. Interest rates on long-term government bonds have increased nearly 30 basis points since Gorbachev's U.N. speech. Moreover, this improved prospect for reducing the savings deficiency in the United States has stayed the hand of foreign investors. However, these investors will not wait very long to see a response to the Soviet initiative from the United States. Therefore, the dollar is expected to begin falling again before the end of this year and early in the new year.

The Canadian elections were a modest shot-in-the-arm for free trade. Once again, the lead times in gaining efficiencies through reduced regulations and restraints across the U.S. and Canadian borders will take up to ten years. Moreover, the Canadians probably will garner more benefits from having freer access to the American markets than will be achieved in the other direction because of the relative sizes of the two economies. Nevertheless, increased efficiencies probably will reduce cost pressures by slightly less than a percentage point in the United States and by several percentage points in Canada. These gains pale in comparison to the more than 6-percentage-point reduction in production costs that can be achieved through an integrated European economy according to some studies. Thus, the relative competitiveness of the United States does not improve when the two initiatives are put together. However, the European free trade zone is not yet a reality.

Finally, the OPEC nations, as expected, agreed to production restraints that would gradually firm oil prices. Indeed, current production targets of 18.5 million barrels a day from the OPEC nations is probably 2 million barrels less than currently is needed during the heating season. However, substantial excess inventory of oil product exists in the world today. Moreover, the 18.5 million quota will not be sufficient to preserve prices during the spring and early summer months. Furthermore, substantial cheating has greeted previous production quotas after only a few months. There is no reason to assume that any other result should develop from the current agreement.

Thus, the net effect of the OPEC agreement is to raise our estimates of inflation over the next three months as a result of higher energy prices but to bring those prices down in the spring. The longer-term inflationary implications are not expected to be substantial.

When all the effects are summed, slightly lower interest rates along with slightly higher near-term inflation appear to be developing. The higher inflation may require more significant Federal Reserve restraint than currently is contemplated. If so, short-term interest rates could rise above long-term interest rates over the next few months. Such an inverted yield curve is an aberration. However, the liquidity restraints associated with such a yield structure normally lead to substantial inventory reductions followed by a slowing in interest-sensitive sectors of the economy. In short, a movement toward recessionary behavior could be spawned by any serious interest rate inversion. Such an outlook of recession is not currently anticipated for 1989, although further Federal Reserve tightening later in 1989 could lead to a moderate recession in 1990.

Quarterly Profile of GNP

	1988-3	1988-4	1989-1	1989-2	1989-3	1989-4	1988 Annual	1989 Annual
Real:	2.6	1.9	4.9	2.6	2.0	1.3	3.9	2.9
Price:	4.7	4.3	4.3	4.2	4.8	4.8	3.3	4.5
Nominal:	7.3	6.3	9.3	6.9	6.9	6.2	7.3	7.5

Monthly Statistical Highlights for November 1988

(NOTE: For production reasons, the timing of this report will be changed to be released the week after the monthly employment report. As a result, the statistical highlights will be for all monthly data following those already released from the payroll situation.)

Personal income +0.1%; savings rate 4.6%; personal consumption +0.8%; retail sales +0.9%; auto sales 10.1 million units; housing starts -3.8%; housing permits -4.5%; construction expenditures +0.7%; business inventories +0.5%; orders for durable goods -1.2%; orders for non-defense capital goods +2.4%; industrial production +0.4%; CPI +0.4%; PPI +0.4%; consumption deflator +0.3%; leading indicators -0.2%; currency index -3.4%; equity index -2.4%; real GNP(AR) +2.1%; M1(AR) +1.1%; M2(AR) +6.6%.

Monthly Statistical Highlights for December 1988

Payroll employment +203,000; index of hours worked +0.2%; household employment +218,000; civilian unemployment rate 5.3%; personal income +0.5%; savings rate 4.4%; personal consumption +0.7%; retail sales +0.8%; auto sales 10.4 million units; housing starts -0.2%; housing permits -0.3%; construction expenditures -0.1%; business inventories +0.5%; orders for durable goods +0.3%; orders for non-defense capital goods +0.5%; industrial production +0.4%; CPI +0.4%; PPI +0.4%; consumption deflator +0.4%; leading indicators +0.2%; currency index -1.6%; equity index +2.2%; real GNP(AR) +1.2%; M1(AR) +5.3%; M2(AR) +7.4%.

Commentary

Employment - Although a 463,000 spurt in payroll employment during November clearly was far in excess of anticipations, a substantial portion of that gain was offset by reduced weekly hours worked in the private economy. The index of hours worked declined slightly in November. Therefore, strength that otherwise would have been indicated by such a large employment gain was largely dissipated. Moreover, the hourly earnings index remained unchanged in November following an unexpectedly brisk rate of increase in October. Thus, fears that the labor markets were getting too tight have diminished slightly. Also, the civilian unemployment rate rose slightly.

Nevertheless, employment was strong in the manufacturing sector and the workweek did not decline there. This indicates that the goods-producing sector of the economy remained strong in November. Furthermore, construction employment and hours also rose. Favorable weather may have been responsible for more construction activity than seasonally occurs in the month of November. Thus, some declines in the construction component certainly are expected for December. On the other hand, retail employment remained sluggish as retailers continued to be cautious about their Christmas prospects.

Productivity in the nonfarm economy rebounded during the third quarter, suggesting that weak labor market demand ahead is no longer likely. Of course, compensation also accelerated. Indeed, many analysts are increasingly concerned by the more than 5% annualized return on compensation during the summer months. Compensation is expected to slow slightly during the fall and winter months. Indeed, our estimates are for an average of 5.5% for all of 1989. Nevertheless, if compensation continues to intensify, higher unit labor costs and higher inflation than currently anticipated will develop.

Personal Income - Personal income surged in October as a result of a significant increase in farm subsidies and a 1.5% contribution from wages and salaries. The surge in wages and salaries clearly reflected the strong employment gains in October along with a one-time bonus to auto workers. However, reduced wage gains suggest that wage and salary growth in November will be modest. Some gains are anticipated in property income, but personal income probably will show minimal growth in November. More normal growth both in wages and salaries and in personal income are expected in December.

Because of the surge in wages and farm subsidies in October, the savings rate surged above 5%. Obviously, this is a level from which relatively strong consumer spending can develop during the Christmas season.

Sluggishness in auto sales early in the new model year suggested that consumer spending may have been slowing. However, a delay in offering new cars by Chrysler and Ford could be distorting the seasonals. In addition, the new W cars provided by GM started slowly but began increasing acceptably in November. If these cars now attain acceptable levels, auto sales could be stronger in the next few months than previously anticipated. Exceptionally strong auto sales after seasonal adjustment may develop early in the new year as Ford and Chrysler models become available.

In the meantime, consumers reacted to their increased incomes. Retail sales in October rose a sharp 0.9% and should rise a further sharp percentage in November. Growth did not develop for other hard goods in October, but they are expected to improve later in the Christmas season.

A surge in service expenditures in October occurred following a slowing in September as a result of the ending of a heat wave. Unusually mild weather could lead to less than normal expenditures growth for services in November before more normal growth rates return in December. Of course, this will allow greater purchasing power for consumers to buy automobiles and other retail goods in the Christmas season.

Construction - Normally, rising interest rates would begin restricting housing starts at this time. However, a surprising spurt in starts and in permits during October raised questions about the current direction of housing activity. In addition, the employment report showed that weather may have been milder than normal in November, leading to surprising spurts in construction activity. Our current projections are for a modest slowing in housing activity as interest rates gently rise. However, strength in the housing markets on the West Coast could persist into the first half of 1989. Under such conditions, stronger housing activity could develop. Of course, with the consumer, industrial activity, and housing all trying to grow late in 1988 and early in 1989, the economy will become overheated and higher interest rates will result. This is not contained in our forecast but certainly is a significant risk that must be considered.

Excluding the spurt in housing activity, other construction activity continues to move sideways. Public construction showed some strength, but this may be the result of favorable weather conditions following disrruptions caused by the summer heat wave. Nonresidential construction continues to sag modestly. Significant vacancy rates should continue to create slight downward pressures upon nonresidential activity through next year.

The construction cost index shows only modest increases as both construction employment and construction materials are showing well-behaved price patterns at the present time. Substantial numbers of construction contracts are up for renegotiation early in 1989. However, sluggishness in the construction industry probably will prevent any serious acceleration of wage pressures at that time.

Business Activity - Manufacturers are beginning to accelerate their pace of inventory accumulations. This is the result of modest increases in sales and should persist through the first half of 1989. Wholesalers also are increasing their inventory holdings while retailers early in the fall held higher than desired inventories. Rising retail sales, however, should remove any glut by the end of the fall.

Large increases in defense orders once again distorted orders for durable goods in October. These orders probably will reverse themselves in November causing some dip in overall durable goods activity. Some large commercial aircraft orders have not yet been recorded in the government statistics. As a result, these orders will strengthen nondefense capital goods orders in the next few months. The traditional January falloff in machinery orders is anticipated despite a lessening of tax advantages that previously caused the seasonal aberration in ordering activity.

Defense shipments are expected to grow gradually in the second half of 1989 as weapons systems that had been developed under President Reagan get into full production. Thus, the peace initiative should not have a significant impact upon actual defense shipments until beyond 1989.

Industrial production is expected to continue rebounding in November with activity especially strong in the business equipment area. Some strength also is expected for consumer goods and industrial materials. Capacity utilization should gradually grow to more than 85% in the second half of 1989. While cyclical peaks do not normally end at this level of utilization, inflationary pressures certainly will be building.

Prices - Although the OPEC agreement is expected to last only a few months before significant cheating forces prices down again, the timing of this agreement is favorable for strengthening prices through the heating season. As a result, our price estimates have been increased early in 1989. In addition, several raw material prices once again are beginning to intensify as a result of the reacceleration of the industrial sector. Indeed, sensitive prices measured by the Journal of Commerce have increased nearly 3% in the past three weeks. Our November survey of sensitive prices for the PPI did not show this acceleration, but the December price increases probably will. Therefore, some intensifying inflationary pressures are being generated. We still believe that moderate Federal Reserve restraint that has been in place for several months will begin slowing the economy early in 1989. As a result, inflationary pressures are not expected to grow dramatically. In addition, declines in oil prices in the spring should provide another respite from rising inflationary pressures. Nevertheless, prices will be rising nearly 5% as measured by the CPI over the next twelve months and by nearly 4.5% as measured by the Producer Price Index.

Obviously, these greater inflationary pressures lead to increased estimates of the GNP deflator. It is noteworthy, however, that only a small percentage of these price increases will be reflected in rising consumer prices.

Miscellaneous - The dollar's strength earlier this year is having an adverse effect upon export growth. As a result, merchandise trade balances probably will not show any further improvement until the second half of next year. Rising oil prices also impart adverse conditions upon the trade balances. However, once the dollar again weakens in the second half of next year, as reflected in our currency index, our trade balances will gradually improve. More significant substitution away from imports also is anticipated. Therefore, previous conclusions that the trade balances will flatten near $10 billion do not appear to be confirmed by our own analysis, which continues to show improved trade balances as a response to weakening dollar values.

Adjusted profits were not as high as originally thought for the summer months. However, strong growth in the nonfarm economy should lead to higher profit growth in the winter than had been projected. Slowing in the economy in the second half of next year along with rising interest rates and upward pressures on wages will eventually slow corporate profitability adjusted for inflation and tax payments.

As a result of that downward trend in profitability, stock market values are not expected to significantly exceed current levels. A slight rebound in stock market values is possible in late winter and early spring as oil prices ease and interest rates momentarily decline. However, significant downward trends in equity values are anticipated in the second half of 1989, at least until interest rates begin falling in earnest at the end of that year.

Financial Markets

Whether reductions in government deficits will be generated in the future as a result of the current peace initiative, deficits for the next fiscal year will be hard-pressed to reach the $100 billion required by Gramm-Rudman legislation. With receipts partially indexed for inflation and benefits also adjusted upward as inflation intensifies, inflation no longer is a substantial tax collector for the federal government. Indeed, rising interest rates increase expenditures almost as rapidly as revenues are growing. Moreover, the current corporate restructuring may begin to have a significant impact upon corporate tax collections. Many of the LBOs are at least partially financed out of the tax savings that are generated in order to pay the interest necessary to buy out the shares. The latest proposal to unbundle equity values contained in current stocks increases the raid on government revenues. In the absence of significant adjustments to taxable interest rate deductions, falling corporate tax receipts soon will develop.

Thus far, corporate restructurings have not gone far enough to significantly alter budget projections. However, the reduced growth that is expected in 1989 will slow receipts to only slightly more than the growth in expenditures in the absence of significant revenue raisers. Thus, the government deficit probably will fall next fiscal year, but only to the vicinity of $140 billion. This will be significantly less than required to meet Gramm-Rudman targets.

Moreover, these deficit estimates do not include borrowings by bank agencies in order to resolve problems in the thrift industry. More than $20 billion probably will be issued to restructure thrift assets in 1989. More than $50 billion probably will be needed before all poorly managed assets are recycled to alternative management oversight. Thus, total government borrowings probably will rise next year, contributing to upward pressures upon interest rates.

In the household sector, housing purchases probably will diminish as interest rates continue rising. Installment credit growth probably will slow to less than the growth of income. This could result in a modest increase in the savings rate. However, the savings rate rose sharply as a result of special wage transfers in October. Such transfers will not be as significant later in the year. For that reason, the savings rate will only gradually drift upward to slightly more than 5% in 1989. Nevertheless, the household sector will largely be exerting downward pressures upon interest rates as they increase their savings.

Corporate restructuring will reduce the degree of savings generated in the corporate sector. Unlike Japan, where households are the primary accumulator of savings, accumulated retained earnings provide a major contribution to gross savings in the United States. Indeed, many corporate capital spending programs are self-financed. However, the conversion from equity to interest payments will significantly reduce the equity ownership in corporations. While the transfer of assets is neutral, interest recipients probably are more prone to consume their accumulated earnings than equity owners. Thus, corporate restructuring probably is leading to a secular decline in the corporate savings being generated.

Next year, corporate borrowings for inventory purposes also will be leading to reduced corporate savings. High returns on commercial paper already reflect significant corporate borrowings. While corporate profitability may improve corporate cash flow early in 1989, profit deterioration will require increased borrowings later in the year. The normal lag between reductions in cash flow and reductions in investment spending should lead to significant liquidity borrowing by the corporate sector in the second half of the year.

Excluding the savings desires of foreign investors, this brief flow of funds analysis suggests that interest rates will remain high early in the year and resume rising in the second half.

Foreign investors momentarily may be encouraged by potential reductions in government borrowings. As a result, moderate interest rate pressures should have only marginal impact upon increasing interest rates during the first half of next year. In the second half, however, pressures should be intensifying. Therefore, interest rates probably will rise more vigorously later in the year after a pause in the first part of this year. Moreover, the Federal Reserve probably will reinforce increased interest rate pressures by attempting to restrain economic activity as inflation intensifies. The yield curve could actually invert even at the shortest level. (The interest rate curve already is slightly inverted from one year to thirty years in maturity.)

Equity Markets - For the next several months, rising corporate profits and relatively stable interest rates should provide favorable conditions for equity values. Indeed, the Dow Jones probably could rise an additional 10% to more than 2300 by the spring. Later in the year, however, rising interest rates and reduced corporate profitability as wages intensify should once again place downward pressures upon equity values. Thus, the stock market should trend downward in the second half of the year. Although rising interest rates do not usually provide opportunities for interest-sensitive investments, increased corporate borrowings may aid the earnings of regional banks while the significant cash flow of many utilities could increase their attractiveness. Some of the multinationals should again perform well as the dollar eases in the first half of next year. Chemicals, fabricated metals, nonelectrical machinery, and commercial aircraft companies still are expected to outperform the market during the next six months. However, some other industries, such as plastics, rubber, paper, and textiles no longer show capacity pressures that helped them improve their profit margins earlier in the year. For that reason, no significant improvement is expected in that group.

While the consensus forecast seems to be that inflationary pressures and interest rates will intensify early in 1989 and equity values will be under downward pressure, our outlook shows a different pattern. When OPEC pricing falls apart, inflation should momentarily ease in the spring. Interest rates should decrease slightly. Then, higher inflationary pressures as a result of intensifying wage pressures along with the impact of a falling dollar will add to the inflation risk. Interest rates then will rise in the second half of 1989 and equity values should trend downward.

EMPLOYMENT

	Payroll Employment		Index of Hours Worked		Household Civilian Employment		Civilian Unemployment Rate		Hourly Earnings Index	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
July 1988	106271	106271	126.4	126.4	115059	115059	5.4	5.4	179.3	179.3
August	106440	106425	125.5	125.5	115180	115180	5.6	5.6	179.6	179.5
September	106695	106737	126.0	126.0	115328	115328	5.4	5.4	180.4	180.3
October	106895	106975	126.3	127.1	115587	115521	5.3	5.3	181.0	181.5
November	107144	107438	126.7	127.0	115895	115976	5.2	5.4	181.5	181.5
December	107393	107641*	127.1	127.3*	116207	116194*	5.2	5.3*	182.1	182.2*
January 1989	107608	107863	127.4	127.5	116443	116405	5.1	5.3	182.8	182.9
February	107840	108059	127.7	127.7	116666	116681	5.0	5.2	183.5	183.6
March	108072	108265	127.9	127.9	116889	116910	5.0	5.2	184.3	184.3
April	108246	108492	128.1	128.2	117003	117155	5.0	5.1	184.9	184.9
May	108419	108713	128.4	128.4	117219	117416	4.9	5.0	185.4	185.5
June	108592	108924	128.5	128.6	117435	117632	5.0	5.0	186.0	186.1
July	108756	109111	128.7	128.7	117568	117875	4.9	4.9	186.7	186.7
August	108913	109317	128.9	129.0	117723	118109	4.9	4.9	187.4	187.4
September	109070	109502	129.1	129.2	117884	118313	4.8	4.9	188.2	188.1
October	109216	109685	129.2	129.4	118005	118493	4.8	4.9	188.9	188.9
November	109352	109862	129.3	129.5	118229	118655	4.9	5.0	189.5	189.6
December	109488	110009	129.2	129.6	118445	118821	4.9	5.0	190.2	190.3

PERSONAL INCOME

	Personal Income		Wage & Salary		Personal Savings		Disposable Income		Personal Outlays	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
July 1988	4.071	4.074	2.452	2.452	141.0	150.1	3.487	3.489	3.346	3.339
August	4.083	4.091	2.457	2.459	132.4	132.4	3.497	3.505	3.365	3.372
September	4.103	4.113	2.471	2.473	147.5	148.3	3.513	3.524	3.366	3.376
October	4.133	4.185	2.484	2.511	148.0	188.3	3.535	3.590	3.387	3.401
November	4.158	4.190*	2.500	2.510*	152.0	165.2*	3.557	3.592*	3.405	3.427*
December	4.182	4.213	2.516	2.528	157.2	159.2	3.579	3.610	3.422	3.451
January 1989	4.204	4.230	2.535	2.543	173.4	160.0	3.612	3.630	3.439	3.470
February	4.238	4.254	2.550	2.559	168.1	167.0	3.630	3.655	3.462	3.488
March	4.270	4.277	2.565	2.574	163.0	176.2	3.645	3.677	3.482	3.501
April	4.286	4.302	2.580	2.590	159.2	183.2	3.661	3.698	3.502	3.515
May	4.300	4.323	2.592	2.603	157.4	186.4	3.678	3.716	3.521	3.530
June	4.314	4.347	2.604	2.617	155.5	199.0	3.695	3.738	3.540	3.539
July	4.340	4.367	2.619	2.628	152.3	198.4	3.711	3.754	3.559	3.556
August	4.365	4.394	2.634	2.646	149.2	200.3	3.725	3.777	3.576	3.577
September	4.390	4.416	2.649	2.661	146.3	202.1	3.739	3.795	3.593	3.593
October	4.408	4.444	2.660	2.678	146.9	206.2	3.756	3.818	3.609	3.612
November	4.429	4.466	2.673	2.691	148.5	208.3	3.778	3.836	3.630	3.628
December	4.450	4.488	2.687	2.705	145.1	211.2	3.797	3.854	3.652	3.643

Fore. = November Forecast
C.E. = Current Expectations
* = This item and those beyond it are projections.

CONSUMPTION

	Personal Consumption		Durables		Nondurables		Services		Consumption Real	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
July 1988	3245.3	3238.9	454.4	448.5	1053.0	1053.0	1737.9	1737.4	2600.1	2594.8
August	3263.4	3271.1	454.8	455.5	1059.6	1064.4	1749.0	1751.2	2608.1	2615.1
September	3264.1	3274.5	451.7	451.5	1060.0	1068.4	1752.4	1754.6	2595.8	2603.7
October	3283.7	3299.7	454.3	446.0	1065.6	1074.8	1763.8	1778.9	2601.1	2611.6
November	3301.3	3324.8*	457.2	458.5*	1067.9	1081.0*	1776.2	1785.3*	2607.4	2623.3*
December	3319.0	3348.3	455.3	464.4	1070.3	1087.2	1793.4	1796.7	2613.6	2632.6
January 1989	3338.3	3367.2	460.1	466.9	1073.5	1091.8	1804.7	1808.5	2620.5	2637.8
February	3356.5	3384.8	463.7	470.4	1077.4	1095.1	1815.4	1819.3	2623.9	2642.0
March	3374.2	3397.3	467.0	469.6	1081.9	1097.2	1825.3	1830.5	2627.3	2642.2
April	3401.3	3411.1	469.9	467.0	1088.5	1100.5	1842.9	1843.6	2635.9	2642.6
May	3423.6	3425.7	473.4	466.3	1097.7	1104.9	1852.5	1854.5	2537.2	2644.7
June	3421.0	3434.9	459.8	462.1	1106.8	1111.9	1854.4	1860.9	2630.8	2641.0
July	3447.5	3451.3	465.6	463.7	1112.4	1116.8	1869.5	1870.8	2637.5	2643.4
August	3468.8	3472.2	470.4	466.7	1113.1	1122.0	1885.3	1883.5	2646.2	2648.8
September	3489.9	3488.1	475.1	467.1	1114.0	1124.8	1900.8	1896.2	2655.0	2649.6
October	3506.2	3506.7	473.4	466.0	1120.6	1131.3	1912.2	1909.4	2653.2	2652.2
November	3520.7	3522.2	470.2	463.2	1129.1	1138.4	1921.4	1920.6	2654.4	2652.6
December	3534.9	3536.8	470.1	462.0	1137.7	1143.3	1927.1	1931.5	2655.7	2651.4

RETAIL SALES

	Retail Sales		Non-Auto Durables		Auto (Million Units)		Nondurable Sales		Auto Sales	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
July 1988	134.34	134.34	20.86	20.86	10.8	10.8	83.59	83.59	29.89	29.89
August	134.18	134.76	20.79	20.87	10.6	10.6	84.16	84.50	29.23	29.39
September	133.66	134.38	20.87	20.83	10.7	10.5	84.14	84.80	28.66	28.75
October	134.40	135.62	20.79	20.79	10.2	9.8	84.59	85.60	29.03	29.24
November	135.10	136.87*	20.67	20.88*	10.5	10.1	84.77	85.93*	29.66	30.06*
December	135.64	138.02	20.85	20.93	10.7	10.4*	84.96	86.42	29.83	30.67
January 1989	136.06	138.67	20.91	20.95	10.7	10.6	85.21	86.79	29.94	30.93
February	136.57	139.32	20.92	21.10	10.8	10.7	85.52	87.05	30.13	31.17
March	137.09	139.40	21.16	21.23	10.7	10.6	85.88	87.22	30.05	30.95
April	137.83	139.37	21.21	21.20	10.7	10.5	86.40	87.48	30.22	30.69
May	138.84	139.64	21.38	21.16	10.7	10.5	87.13	87.83	30.33	30.65
June	138.66	139.73	20.86	21.25	10.5	10.3	87.85	88.39	29.95	30.09
July	139.35	140.30	20.97	21.28	10.5	10.4	88.30	88.78	30.08	30.24
August	139.53	141.04	21.23	21.36	10.3	10.5	88.35	89.19	29.95	30.49
September	139.69	141.31	21.46	21.33	10.2	10.5	88.43	89.41	29.80	30.57
October	140.86	141.71	21.35	21.30	10.2	10.2	88.95	89.93	30.56	30.48
November	141.18	141.09	21.10	21.25	10.1	10.0	89.62	90.49	30.46	30.22
December	142.15	142.21	20.99	21.26	10.3	9.9	90.31	90.88	30.85	30.07

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CONSTRUCTION

	Housing Starts		Single Family Starts		Housing Permits		Construction Expenditures (Current)		Construction Expenditures (Real)	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
July 1988	1.477	1.477	1.075	1.068	1.420	1.420	398.3	401.8	343.4	346.4
August	1.431	1.461	1.068	1.078	1.464	1.464	396.1	402.8	341.7	347.6
September	1.453	1.449	1.050	1.042	1.399	1.394	401.6	405.5	345.9	349.6
October	1.465	1.554	1.067	1.146	1.413	1.497	399.2	409.2	343.3	352.2
November	1.430	1.495*	1.052	1.080*	1.378	1.430*	397.4	412.0*	341.1	353.9*
December	1.433	1.492	1.043	1.083	1.385	1.425	395.6	411.5	339.0	352.9
January 1989	1.442	1.459	1.056	1.052	1.372	1.416	398.9	407.5	341.5	348.6
February	1.435	1.428	1.071	1.027	1.359	1.401	401.3	405.8	343.0	346.5
March	1.463	1.420	1.062	1.034	1.384	1.377	403.8	402.6	344.5	343.2
April	1.439	1.425	1.045	1.037	1.359	1.380	403.8	403.3	344.0	343.2
May	1.442	1.443	1.036	1.053	1.365	1.402	403.4	404.5	343.6	343.7
June	1.426	1.416	1.030	1.022	1.329	1.375	403.3	405.0	342.9	343.5
July	1.448	1.402	1.033	1.004	1.330	1.361	404.6	405.1	343.5	343.0
August	1.450	1.384	1.035	0.996	1.353	1.329	404.7	402.4	342.7	340.2
September	1.431	1.395	1.026	0.993	1.342	1.334	404.5	403.1	341.6	339.9
October	1.406	1.386	1.011	0.972	1.316	1.326	404.6	403.3	341.1	339.5
November	1.394	1.392	0.989	0.965	1.309	1.320	404.7	404.6	340.7	340.0
December	1.380	1.385	0.964	0.967	1.296	1.309	404.4	405.1	339.8	339.6

	Non-Residential		Public Construction		Residential Construction	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
July 1988	129.7	129.7	79.2	79.3	189.4	192.8
August	127.8	130.4	77.5	76.7	190.8	195.8
September	129.4	129.6	79.5	79.0	192.7	196.9
October	128.8	129.5	79.8	80.9	190.6	198.9
November	128.1	129.9*	80.0	82.2*	189.3	199.9*
December	127.5	129.2	80.1	81.6	188.0	200.7
January 1989	128.6	128.5	80.8	81.0	189.5	198.0
February	129.2	128.1	81.4	81.3	190.7	196.4
March	129.8	127.2	82.0	81.9	192.0	193.5
April	129.5	127.4	82.3	82.6	192.0	193.3
May	129.3	127.2	82.5	83.0	191.6	194.3
June	129.3	126.5	82.8	83.5	191.2	195.0
July	129.0	126.6	83.0	83.8	192.6	194.7
August	128.5	126.3	82.9	83.2	193.3	192.9
September	128.0	126.5	83.3	83.7	193.2	192.9
October	128.4	126.2	83.6	84.1	192.6	193.0
November	129.0	125.9	83.9	84.5	191.8	194.2
December	129.3	126.1	84.1	84.8	191.0	194.2

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BUSINESS ACTIVITY

	Manufacturers' Inventories		Durable Goods Orders		Non-Defense Capital Goods Orders		Non-Defense Capital Shipments	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
July 1988	343.8	343.8	116.11	116.11	36.21	36.21	32.01	32.01
August	345.6	345.8	122.73	122.81	38.71	38.81	32.34	32.41
September	347.3	347.8	117.70	119.32	34.09	34.86	31.95	32.52
October	349.0	349.9*	119.23	122.06	34.65	33.81	32.37	32.57
November	350.3	351.5	118.51	120.61*	34.26	34.62*	32.65	32.69*
December	351.6	353.3	118.26	120.93	34.12	34.81	32.98	32.88
January 1989	353.3	354.8	116.94	117.45	33.04	33.95	32.86	32.85
February	355.4	356.5	117.72	117.27	33.26	33.65	33.07	33.17
March	357.5	358.2	118.84	118.14	33.49	33.84	33.29	33.26
April	359.0	360.0	119.93	119.48	33.76	34.12	33.41	33.45
May	360.2	361.8	119.52	119.93	33.95	34.27	33.48	33.61
June	361.5	363.6	120.21	118.85	33.28	33.96	33.53	33.68
July	364.0	365.1	119.46	118.42	33.72	33.75	33.60	33.65
August	366.3	366.7	119.93	119.07	34.16	33.92	33.69	33.74
September	368.5	368.2	119.65	120.16	34.20	34.16	33.78	33.81
October	370.3	370.0	119.27	120.93	34.17	34.29	33.92	33.90
November	372.5	371.5	119.04	120.45	34.13	34.20	34.06	33.96
December	374.8	373.2	117.86	122.16	33.65	34.35	34.05	34.17

	Business Inventories		Defense Shipments		Industrial Production		Capacity Utilization	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
July 1988	735.9	735.9	8.66	8.66	138.1	138.0	83.8	83.7
August	741.7	743.9	9.02	9.04	138.3	138.4	83.8	83.8
September	744.7	749.4	8.74	8.83	138.3	138.7	83.6	83.8
October	749.6	752.4*	8.50	8.43	138.7	139.2	83.8	84.0
November	754.0	755.8	8.55	8.62*	139.1	139.8*	83.9	84.2*
December	758.4	759.7	8.60	8.75	139.5	140.3	84.1	84.4
January 1989	761.5	763.9	8.61	8.70	140.0	140.6	84.3	84.5
February	764.7	767.6	8.69	8.67	140.5	140.9	84.5	84.5
March	768.0	771.3	8.76	8.73	141.0	141.3	84.7	84.6
April	771.3	775.2	8.80	8.80	141.2	141.8	84.6	84.8
May	775.4	779.1	8.84	8.85	141.2	142.1	84.3	84.8
June	779.4	783.9	8.90	8.82	141.8	142.4	84.5	84.9
July	783.5	788.6	8.79	8.96	142.4	142.4	84.8	84.7
August	787.2	793.3	8.84	9.15	143.2	142.9	85.2	85.0
September	791.0	797.5	8.70	9.07	144.0	143.3	85.5	85.1
October	795.6	801.4	8.81	8.92	144.3	143.6	85.5	85.2
November	800.3	805.6	8.96	8.95	144.4	143.8	85.4	85.2
December	805.0	809.3	9.11	9.13	144.2	143.9	85.1	85.1

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PRICES

	CPI-U (seasonally adjusted)		PPI Finished Goods (seasonally adjusted)		PPI-Industrial Commodities (unadjusted)		Estimated GNP Deflator	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
July 1988	118.5	118.5	108.3	108.3	106.7	106.7	121.9	122.0
August	119.0	119.0	108.9	108.9	107.1	107.1	122.2	122.3
September	119.4	119.4	109.3	109.3	106.9	106.9	122.7	122.8
October	119.9	119.9	109.2	109.5	107.2	107.1	123.0	123.3
November	120.4	120.4*	109.4	109.9*	107.5	107.6*	123.3	123.7
December	120.8	120.9	109.7	110.3	107.8	108.1	123.6	124.1
January 1989	121.1	121.4	110.3	110.8	108.0	108.4	124.1	124.6
February	121.4	121.8	110.6	111.2	108.1	108.9	124.6	125.0
March	121.8	122.3	110.9	111.5	108.2	109.0	125.2	125.4
April	122.3	122.7	111.2	111.8	108.7	109.2	125.6	125.9
May	122.8	123.1	111.5	112.1	109.4	109.6	125.9	126.3
June	123.4	123.6	111.8	112.4	110.1	110.9	126.2	126.8
July	124.0	124.1	112.2	112.8	110.5	111.3	126.7	127.3
August	124.6	124.7	112.6	113.3	110.8	111.7	127.1	127.7
September	125.2	125.2	113.0	113.7	110.5	110.9	127.5	128.3
October	125.7	125.8	113.4	114.1	111.2	112.1	128.0	128.8
November	126.2	126.4	113.9	114.5	111.9	112.5	128.4	129.3
December	126.8	127.0	114.5	115.0	112.6	112.9	128.8	129.9

	Consumption Deflator		Consumer Durables		Consumer Nondurables		Consumer Services		Implicit Construction Deflator	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
July 1988	124.8	124.8	110.1	110.0	116.9	116.9	135.1	135.1	116.0	116.0
August	125.1	125.1	110.4	110.4	117.1	117.0	135.5	135.4	115.9	115.9
September	125.7	125.8	110.6	110.6	117.9	117.9	136.1	136.1	116.1	116.0
October	126.2	126.3	110.8	110.9	118.2	118.4	136.7	136.7	116.3	116.2
November	126.6	126.7*	110.7	111.0*	118.5	118.8*	137.2	137.3*	116.5	116.4*
December	127.0	127.2	110.9	111.2	118.9	119.2	137.8	137.9	116.7	116.6
January 1989	127.4	127.7	111.2	111.4	119.2	119.6	138.5	138.5	116.8	116.9
February	127.9	128.1	111.5	111.6	119.5	120.0	139.0	139.1	117.0	117.1
March	128.4	128.6	111.8	111.9	119.8	120.4	139.5	139.6	117.2	117.3
April	129.0	129.1	112.0	112.1	120.5	120.8	140.1	140.2	117.4	117.5
May	129.8	129.5	112.0	112.3	121.3	121.1	140.8	140.8	117.4	117.7
June	130.0	130.1	112.2	112.5	122.0	121.5	141.5	141.5	117.6	117.9
July	130.7	130.6	112.5	112.7	122.3	122.0	142.0	142.1	117.8	118.1
August	131.1	131.1	112.9	113.0	122.6	122.5	142.6	142.7	118.1	118.3
September	131.4	131.6	113.3	113.4	122.9	123.0	143.2	143.3	118.4	118.6
October	132.1	132.2	113.5	113.6	123.6	123.5	143.8	144.0	118.6	118.8
November	132.6	132.8	113.4	113.8	124.2	124.1	144.4	144.6	118.8	119.0
December	133.1	133.4	113.6	114.0	124.8	124.7	145.0	145.3	119.0	119.3

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MISCELLANEOUS

	Merchandise Trade Balance		Leading Indicators		Estimated GNP		Estimated GNP (1982 $)		IVA (annual rate)	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
July 1988	-9.98	-9.98	192.7	192.4	4888	4891	4010	4009	-27.2	-28.6
August	-10.53	-10.53	193.4	193.4	4900	4906	4010	4011	-23.7	-30.4
September	-8.97	-8.97	193.6	192.9	4915	4931	4006	4015	-18.5	-32.8
October	-9.28	-9.28*	194.2	193.0	4935	4962	4012	4024	-20.6	-27.4
November	-9.65	-9.93	194.5	192.6*	4954	4986	4018	4031	-21.9	-23.7
December	-10.02	-10.17	193.7	193.0	4974	5007	4024	4035	-23.2	-27.5
January 1989	-8.76	-9.65	194.0	193.3	5016	5067	4042	4067	-16.5	-30.5
February	-7.93	-9.40	194.4	193.2	5066	5098	4066	4078	-14.8	-30.9
March	-7.39	-9.26	194.0	193.5	5107	5128	4079	4089	-13.0	-27.6
April	-7.05	-9.43	193.5	193.7	5127	5159	4082	4098	-17.6	-23.2
May	-7.38	-8.89	193.1	193.8	5148	5182	4089	4103	-19.9	-21.9
June	-7.34	-8.26	193.5	193.5	5169	5214	4096	4112	-22.3	-18.3
July	-8.21	-8.84	193.8	193.2	5194	5235	4099	4115	-22.1	-19.8
August	-8.46	-8.59	193.2	193.0	5221	5255	4108	4127	-22.6	-20.5
September	-8.65	-8.63	192.7	193.2	5248	5303	4116	4133	-23.1	-21.7
October	-7.73	-8.14	192.0	192.6	5279	5327	4124	4136	-26.9	-23.8
November	-7.27	-7.64	191.6	192.0	5301	5352	4129	4139	-28.0	-24.6
December	-6.80	-7.36	192.1	191.5	5323	5378	4133	4140	-29.1	-25.5

	Currency Index		Adjusted Profits		30-Year Government Bonds		New York Composite	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
July 1988	96.53	96.53	191.2	186.2	9.14	9.14	152.12	152.12
August	98.29	98.29	188.5	178.5	9.32	9.32	149.25	149.25
September	97.91	97.91	183.7	174.7	9.06	9.06	151.47	151.47
October	94.63	95.10	173.5	176.3	9.01	8.89	157.63	156.24
November	90.46	91.91	166.7	178.4	9.17	9.02	160.26	152.46
December	87.01	90.43*	160.5	180.5	9.30	9.03*	160.63	155.83*
January 1989	85.56	91.86	169.8	182.9	9.24	9.10	161.25	157.42
February	88.42	92.95	173.8	185.3	9.26	9.07	162.29	161.36
March	91.26	91.02	177.7	187.6	9.25	8.96	162.05	164.14
April	92.15	89.26	175.2	184.5	9.30	9.14	154.43	161.25
May	90.45	87.75	173.8	183.1	9.33	9.23	149.62	160.57
June	91.03	86.64	172.5	178.6	9.52	9.30	145.15	156.59
July	91.72	88.23	174.0	179.4	9.65	9.45	143.65	153.65
August	92.43	89.74	174.9	175.3	9.54	9.48	152.43	154.18
September	93.06	90.52	173.6	173.2	9.59	9.50	153.11	152.28
October	92.20	91.86	169.4	169.4	9.73	9.41	149.25	149.67
November	89.25	90.20	167.8	169.9	9.88	9.26	147.85	151.43
December	86.93	87.46	166.2	169.8	10.03	9.11	142.25	153.62

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FINANCIAL MARKETS

	Monetary Base		M1		M2		Federal Funds		T-Bills (6 Mos.)	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
July 1988	280.3	280.2	782.4	782.3	3025.9	3025.8	7.75	7.75	6.99	6.99
August	281.1	281.1	782.5	782.5	3031.8	3031.6	8.01	8.01	7.36	7.36
September	282.1	282.3	782.5	782.3	3035.1	3034.1	8.19	8.19	7.43	7.43
October	284.0	283.4	785.3	783.5	3043.5	3037.2	8.25	8.30	7.36	7.50
November	285.3	285.1*	792.6	784.2*	3079.0	3053.5*	8.23	8.35	7.37	7.76
December	286.6	286.7	799.3	787.6	3106.5	3071.8	8.22	8.62*	7.37	7.95*
January 1989	288.4	288.4	803.1	791.1	3120.4	3090.2	8.20	8.55	7.35	7.90
February	290.2	290.0	805.3	794.6	3134.5	3108.7	8.18	8.63	7.36	7.94
March	291.9	291.6	807.6	799.0	3148.6	3130.5	8.22	8.60	7.37	7.92
April	293.7	293.1	811.9	803.1	3167.7	3149.3	8.24	8.54	7.40	7.85
May	295.0	294.6	817.7	807.8	3188.6	3171.3	8.25	8.75	7.46	8.03
June	296.3	296.0	823.2	811.9	3208.9	3193.5	8.35	8.88	7.55	8.16
July	298.0	297.5	826.9	816.6	3229.3	3215.9	8.33	9.03	7.52	8.24
August	299.5	299.4	831.4	820.9	3249.1	3238.4	8.30	9.02	7.40	8.20
September	300.9	301.3	834.9	825.6	3268.8	3261.1	8.36	9.05	7.42	8.25
October	302.5	303.0	838.6	829.3	3281.4	3280.7	8.55	9.26	7.69	8.34
November	304.3	304.8	842.9	833.6	3299.1	3300.4	8.92	9.24	7.89	8.27
December	306.0	306.2	847.3	835.9	3317.6	3316.9	9.03	9.18	8.01	8.10

	Aaa (Seasoned)		Municipals (Bond Buyer)		(3 Month) Commercial Paper		90 Day CD's		Prime Rate	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
July 1988	9.96	9.96	7.76	7.76	7.82	7.82	7.94	7.94	9.29	9.29
August	10.11	10.11	7.79	7.79	8.26	8.26	8.35	8.35	9.84	9.84
September	9.82	9.82	7.66	7.66	8.17	8.17	8.23	8.23	10.00	10.00
October	9.68	9.51	7.49	7.47	8.23	8.24	8.30	8.36	10.00	10.00
November	10.01	9.45	7.80	7.46	8.24	8.66	8.32	8.78	10.00	10.05
December	10.17	9.56*	7.85	7.55*	8.29	8.94*	8.38	9.03*	10.00	10.50*
January 1989	10.05	9.63	7.82	7.62	8.25	8.65	8.33	8.79	10.00	10.50
February	10.08	9.60	7.83	7.65	8.26	8.69	8.35	8.84	10.00	10.50
March	10.10	9.54	7.87	7.54	8.24	8.66	8.33	8.76	10.00	10.50
April	10.15	9.76	7.92	7.71	8.27	8.47	8.40	8.60	10.00	10.50
May	10.20	9.87	7.95	7.82	8.30	8.71	8.41	8.83	10.00	10.66
June	10.24	10.03	7.98	7.99	8.37	8.89	8.46	9.01	10.00	11.00
July	10.33	10.26	8.04	8.05	8.39	9.11	8.50	9.22	10.00	11.15
August	10.38	10.35	8.08	8.16	8.42	9.10	8.56	9.25	10.00	11.50
September	10.45	10.30	8.15	8.11	8.45	9.12	8.60	9.23	10.00	11.50
October	10.62	10.24	8.31	8.05	8.66	9.20	8.73	9.34	10.46	11.50
November	10.73	10.15	8.40	8.03	9.03	9.22	9.15	9.36	10.75	11.50
December	10.82	10.02	8.46	7.98	9.15	9.15	9.26	9.28	11.00	11.50

Fore. = November Forecast
C.E. = Current Expectations
* = This item and those beyond it are projections.